STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**01/05/04**	Bill No:	**SB 764**
Tax:	**Property**	Author:	**Morrow**
Board Position:		Related Bills:	

BILL SUMMARY

This bill would increase the amount of the disabled veterans' exemption annually by an inflation factor beginning with the January 1, 2005 lien date.

Summary of Amendments

The amendments to this bill since the previous analysis delete the provisions that would have increased the exemption to $200,000 for the basic exemption and $250,000 for the low-income exemption.

ANALYSIS

Current Law

Article XIII, Section 4 of the California Constitution provides that the Legislature may exempt from property tax, in whole or in part, the home of a person or a person's spouse, including an unmarried surviving spouse, if the person, because of injury incurred in military service, is totally disabled. This exemption is commonly referred to as the "disabled veterans' exemption." The disabled veterans' exemption is also available to the surviving spouse of a person who has died as a result of a service connected injury or death while on active duty in military service.

Revenue and Taxation Code Section 205.5 provides the statutory implementation of the disabled veterans' exemption. A $100,000 "basic exemption" is provided on a one time filing basis to qualified persons. If household income is less than a specified amount, the amount of the exemption is $150,000. The income threshold for the "low income exemption" is adjusted annually by an inflation factor. For the 2004 assessment year, the household income limit was $44,302. The "low income exemption" requires an annual filing to reaffirm income eligibility.

Qualification	Basic Exemption	Low Income Exemption ($42,814)
Veteran Disability Rating = 100% Disability Compensation = 100% Blind Lost Two or More Limbs **Spouse of Military Personnel** Surviving Spouse of Disabled Veteran Surviving Spouse of Person Killed in Active Duty	**$100,000**	**$150,000**

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Proposed Law

This measure would amend Section 205.5 of the Revenue and Taxation Code to annually increase the amount of the disabled veterans' exemption by an inflation factor, commencing on January 1, 2005, and for each assessment year thereafter. The factor would be based on the annual percentage change, measured from February to February of the two previous assessment years in the California Consumer Price Index for all items.

In General

There are two property tax exemptions available for persons who have served in the military: (1) the veterans' exemption and (2) the disabled veterans' exemption.

Veterans' Exemption

The veterans' exemption applies to any property subject to property tax (for instance, real property; property used in a trade, profession or business; boats; or planes) owned by an eligible veteran. The exemption is also available to the unmarried surviving spouse of the veteran and the parents of a deceased veteran. The exemption is in the amount of $4,000 of full cash value, providing up to $40 of tax savings. However, the exemption is nearly extinct. At its peak, from 1956 through 1962, over one million persons received the veterans' exemption. Today, fewer than 40 veterans receive the exemption.

The decline of the veterans' exemption is due to two factors. First, the homeowners' exemption was increased in 1974 to an amount greater than the veterans' exemption.[1] The homeowners' exemption, in the amount of $7,000 of full cash value, provides tax savings of up to $70. Consequently, veterans who own homes instead switched to the homeowners' exemption available to any Californian. Secondly, the remaining non-home owning veterans are unable to qualify for the veterans' exemption due to strict wealth limitations fixed in the Constitution. Those limitations are a personal wealth cap of $5,000 for an unmarried veteran and $10,000 for a married veteran, as specified. (See Revenue and Taxation Code §205 and Section 3 of Article XIII of the Constitution.)

Disabled Veterans' Exemption

Section 4(a) of Article XIII of the California Constitution grants the Legislature the authority to exempt from property tax, in whole or in part, the home of a person (or a person's spouse) who is injured in military service. This exemption is commonly referred to as the "disabled veterans' exemption." Injuries that qualify a veteran for the exemption include: (1) a disability rating at 100%, (2) blindness, and (3) lost use of two or more limbs. Additionally a veteran that has a disability compensation rating at 100% because he or she is unable to secure or follow a substantially gainful occupation is also eligible for the disabled veterans' exemption. The spouse of a disabled veteran is able

[1] The homeowners' exemption was first adopted via constitutional amendment (Proposition 1A; 1968 Cal. Res. 9, extra session in 1968, SCA 1). The exemption increased from $3,000 to its current level of $7,000 via a second constitutional amendment in 1974 (Proposition 6, 1974 Cal. Res. 77 SCA 26).

to maintain the exemption after the veteran's death as long as the spouse is unmarried. Additionally, since 1994, pursuant to a constitutional amendment, (Proposition 160, November 1992) the unmarried spouse of a person who dies as a result of a service-connected injury or disease while on active duty is able to qualify for the disabled veterans' exemption.

Section 205.5 of the Revenue and Taxation Code implements the Legislature's authority to provide a property tax exemption for disabled veterans and/or their unmarried surviving spouses.

Background

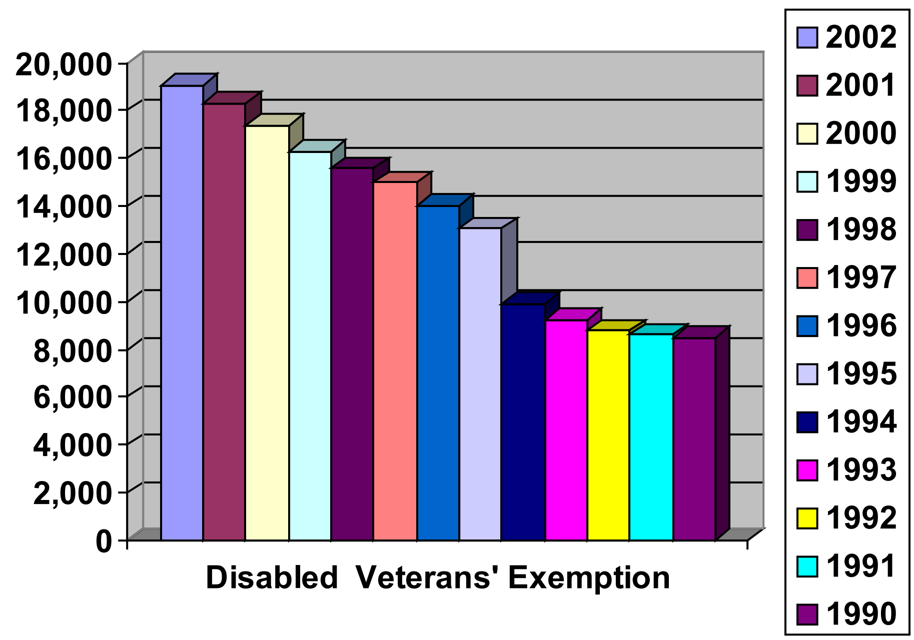
For the 2002-03 fiscal year, a total of 19,041 disabled veterans' exemption claims were granted. The total amount of assessed value exempt was $1,566,373,000. The following table lists the number of disabled veterans' exemptions claimed in each of the 58 counties in order of those counties with the greatest number of claims.

2002 Exemption Claims Per County

San Diego	3349	Merced	242	Calaveras	59
Los Angeles	1386	Placer	231	Del Norte	55
Sacramento	1317	San Mateo	204	Yolo	54
Riverside	1188	Tulare	199	Siskiyou	48
Solano	1000	San Luis Obispo	178	Mariposa	42
San Bernardino	975	El Dorado	176	Imperial	41
Orange	967	Marin	174	Amador	38
Monterey	766	Humboldt	153	Plumas	33
Contra Costa	590	Nevada	141	Lassen	24
Santa Clara	493	Lake	138	Trinity	21
Alameda	471	San Francisco	132	San Benito	20
Shasta	455	Sutter	126	Glenn	16
Ventura	435	Mendocino	126	Modoc	12
Fresno	424	Santa Cruz	118	Colusa	11
Sonoma	352	Yuba	112	Inyo	5
San Joaquin	328	Tehama	100	Sierra	5
Stanislaus	300	Napa	99	Mono	2
Kern	283	Kings	95	Alpine	1
Butte	281	Madera	84		
Santa Barbara	267	Tuolumne	68		

1990-2002 Statewide Exemption Claims

Year	Disabled Vets' Exempt
2002	19,041
2001	18,308
2000	17,382
1999	16,309
1998	15,563
1997	14,982
1996	14,043
1995	13,051
1994	9,925
1993	9,226
1992	8,780
1991	8,612
1990	8,483



COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the Cal-Diego Paralyzed Veterans Association in an effort to increase the amount of the exemption.

2. **Amendments.** The January 5, 2004 amendments delete the provisions that would have increased the exemption to $200,000 for the basic exemption and $250,000 for the low-income exemption

3. **The Exemption Amount Has Not Been Increased Since 1989.** The current exemption amounts have been in effect since 1989. In 2000, the income threshold for the low income exemption of $150,000 was increased from $24,000 to $40,000 and an automatic annual inflation factor was instituted. Currently, the income threshold is $44,302.

4. **This Bill Would Automatically Increase the Exemption Amount Each Year.** For the year 2005 and each year thereafter, the exemption would be compounded annually by an inflation factor. The inflation factor specified is the same measurement period that is used for purposes of increasing the income threshold level.

5. **State Does Not Subvene Property Tax Revenue Loss from the Disabled Veterans' Exemption.** The homeowners' exemption is the only property tax exemption for which the state fully reimburses local government. The state also makes subvention payments to offset property tax reductions for open space and agricultural property that receives preferential assessment treatment under the Williamson Act at the rate of $1 per acre for non-prime land and $5 per acre for prime land.

COST ESTIMATE

With respect to property taxes, the Board would incur minor costs (less than $10,000) in informing and advising local county assessors, the public, and staff of the law changes as well as the annual amount of the exemption.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

Existing property tax law provides for an exemption in the amount of $100,000 for the principal residence of a disabled veteran generally, but increases that amount to $150,000, if the claimant's income does not exceed $40,000 as adjusted by inflation.

There were a total of 19,041 disabled veterans' exemptions granted in 2002-03. The breakdown between persons who receive the regular $100,000 exemption and the low-income $150,000 exemption is as follows:

- **17,050 regular disabled veterans' exemptions** of which it is estimated that 59.03 percent—or 10,064—are claimed on homes with an assessed value of less than $100,000 and therefore would not be affected by an increase in the amount of the exemption. Therefore, it is estimated that **6,986** homes would receive an increase in the amount of the exemption under this bill.

- **1,991 low-income disabled veterans' exemptions** of which it is estimated that 54.23 percent—or 1,080— are claimed on homes with an assessed value of less than $150,000 and therefore would not be affected by an increase in the amount of the exemption. Therefore, it is estimated that **911** homes would receive an increase in the amount of the exemption under this bill.

This bill provides that the amount of the disabled veterans' exemptions would be adjusted annually to reflect cost of living increases. This adjustment will be based on the year-to-year increase in the California Consumer Price Index (CCPI) for all items, as of February of each year. The year-to-year changes in the CCPI for the preceding seven years have generally been modest increases, ranging from 1.302 percent in 1996 to 4.535 percent in 2001, dropping sharply to 2.32 percent in 2002. Assuming that the inflation adjustment lies in the 1 to 5 percent range, and that the adjustment applies beginning with the January 1, 2005 lien date, the exemption amounts in the first five years can be estimated to grow as follows:

For the regular $100,000 exemption amount:

2005-06	$100,000 x [1.01 to 1.05]	= $101,000 to $105,000
2006-07	[$101,000 to $105,000] x [1.01 to 1.05]	= $102,010 to $110,250
2007-08	[$102,010 to $110,250] x [1.01 to 1.05]	= $103,030 to $115,763
2008-09	[$103,030 to $115,763] x [1.01 to 1.05]	= $104,060 to $121,551

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2009-10	[$104,060 to $121,551] x [1.01 to 1.05]	= $105,101 to $127,629

For the low-income $150,000 exemption amount:

2005-06	$150,000 x [1.01 to 1.05]	= $151,500 to $157,500
2006-07	[$151,500 to $157,500] x [1.01 to 1.05]	= $153,015 to $165,375
2007-08	[$153,015 to $165,375] x [1.01 to 1.05]	= $154,545 to $173,644
2008-09	[$154,545 to $173,644] x [1.01 to 1.05]	= $156,090 to $182,326
2009-10	[$156,090 to $182,326] x [1.01 to 1.05]	= $157,651 to $191,442

The inflation factor adjustment would affect only the claimants with assessed values equal to or greater than $100,000 for the “regular” exemption, and assessed values equal to or greater than $150,000 for the “low-income” exemption. The estimated effect of the inflation factor adjustment on the maximum exemption amounts can be computed by multiplying the number of exemptions that would be affected by the inflation factor.

The effect for the estimated 6,986 “regular” claimants with an assessed value equal to or greater than $100,000 is then:

2005-06	6,986 x [$1,000 to $ 5,000]	= $ 6,986,000 to $ 34,930,000
2006-07	6,986 x [$2,010 to $10,250]	= $14,041,860 to $ 71,606,500
2007-08	6,986 x [$3,030 to $15,763]	= $21,167,580 to $110,120,318
2008-09	6,986 x [$4,060 to $21,551]	= $28,363,160 to $150,555,286
2009-10	6,986 x [$5,101 to $27,629]	= $35,635,586 to $193,016,194

The estimated effect for the 911 “low-income” claimants with an assessed value greater than $150,000 is:

2005-06	911 x [$1,500 to $ 7,500]	= $1,366,500 to $ 6,832,500
2006-07	911 x [$3,015 to $15,375]	= $2,746,665 to $14,006,625
2007-08	911 x [$4,545 to $23,644]	= $4,140,495 to $21,539,684
2008-09	911 x [$6,090 to $32,326]	= $5,547,990 to $29,448,986
2009-10	911 x [$7,651 to $41,442]	= $6,970,061 to $37,753,662

Revenue Summary

The annual decrease in property tax revenues at the basic one percent property tax rate under this bill is estimated to be:

2005-06	[$ 6,986,000 to $ 34,930,000] + [$1,366,500 to $ 6,832,500]	x 1%	= $ 83,525 to $ 417,625
2006-07	[$14,041,860 to $ 71,606,500] + [$2,746,665 to $14,006,625]	x 1%	= $167,885 to $ 856,131
2007-08	[$21,167,580 to $110,120,318] + [$4,140,495 to $21,539,684]	x 1%	= $253,081 to $1,316,600
2008-09	[$28,363,160 to $150,555,286] + [$5,547,990 to $29,448,986]	x 1%	= $339,112 to $1,800,043
2009-10	[$35,635,586 to $193,016,194] + [$6,970,061 to $37,753,662]	x 1%	= $426,056 to $2,307,699

Qualifying Remarks

Increases in the exemption amounts resulting from the annual inflation factor adjustment are expected to grow significantly over time because of the compounding effect of the adjustment.

It is not possible to compute the number of new claims for the disabled veterans' exemptions in the coming years due to the uncertainty of the increase in the number of disabled veterans.

Local agencies are not currently reimbursed for property tax revenues lost to them as a result of the disabled veterans' exemptions.

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